

**CITY OF ROCK RAPIDS**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2015**

*De Noble, Austin & Company PC*  
*Certified Public Accountants*  
*Rock Rapids, Iowa*



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## City of Rock Rapids

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jason Chase	Mayor	January 1, 2016
Tami Murray	Council Member	January 1, 2016
Marlene Bowers	Council Member	January 1, 2016
Scott Schneidermann	Council Member	January 1, 2016
Cody Hoefert	Council Member	January 1, 2018
Eric Borman	Council Member	January 1, 2018
Jordan Kordahl	City Administrator, Clerk and Treasurer	Indefinite
Linda Trei	Deputy City Clerk	Indefinite
Linda McCormack	Librarian	Indefinite
Jackie Austin	Library Trustee	July 1, 2015
Judy Gaspar	Library Trustee	July 1, 2015
Geneva Grooters	Library Trustee	July 1, 2015
Jennifer Elbert	Library Trustee	July 1, 2017
Jaci Van Veldhuizen	Library Trustee	July 1, 2017
Dennis Haselhoff	Library Trustee	July 1, 2019
Troy Metzger	Library Trustee	July 1, 2019
Michael R. Austin	City Attorney	Indefinite (Appointed)

# **DE NOBLE, AUSTIN & COMPANY PC**

## **Certified Public Accountants**

### **MEMBERS**

111 S. Story Street  
Rock Rapids, IA 51246  
www.denoblepc.com

American Institute - Certified Public Accountants  
Private Companies Practice Section  
Iowa Society - Certified Public Accountants

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### **Independent Auditor's Report**

To the Honorable Mayor and Members of the City Council:

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these primary government financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the primary government financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these primary government financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the primary government financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the primary government financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

The financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of the City of Rock Rapids, Iowa, as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Emphasis of a Matter

As disclosed in Note 5 to the financial statements, the City of Rock Rapids adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Rock Rapids' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the primary government financial statements for the nine fiscal years ended June 30, 2014, (which are not presented herein) and expressed unqualified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic primary government financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic primary government financial statements or to the basic

primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information for the primary government, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 5 through 11 and 32 through 36 has not been subjected to the auditing procedures applied in the audit of the basic primary government financial statements and accordingly, we do not express an opinion or provide any assurance on it.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2016, on our consideration of the City of Rock Rapids' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Rock Rapids' internal control over financial reporting and compliance.

*De Noble, Austin & Company PC*

De Noble & Company PC  
d/b/a De Noble, Austin & Company PC  
Certified Public Accountants

February 8, 2016



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Rock Rapids provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's primary government financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 7.86%, or \$249,811, from fiscal year 2014 to fiscal year 2015. Operating grants, contributions, and restricted interest increased \$269,098; business tax credits increased \$71,482; capital grants, contributions, and restricted interest decreased \$136,462.
- Disbursements of the City's governmental activities increased 23.63%, or \$674,214, in fiscal year 2015 from fiscal year 2014. Public works increased \$496,253; capital projects increased \$144,658, community and economic development increased \$141,087; culture and recreation decreased \$147,992; community and economic development decreased \$24,167.
- The City's total cash basis net position decreased by 3.10%, or \$101,708, from June 30, 2014 to June 30, 2015.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic primary government financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position – Primary Government. This statement provides information about the activities of the City's primary government as a whole and presents an overall view of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. Also, the fund financial statement reports the City's primary government operations in more detail than the government-wide statement by providing information about the most significant primary government funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic primary government financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds of the City's primary government and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-Wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position – Primary Government reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position – Primary Government presents the City's primary government net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position – Primary Government consists only of governmental activities. Business type activities, consisting of electric, water, wastewater, and gas, are conducted by the Rock Rapids Municipal Utilities and reported separately. Business type activities are financed primarily by user charges. The Rock Rapids Municipal Utilities also maintains a revolving loan fund accounted for as a governmental activity (the Utilities received a "Rural Economic Development Grant" to assist with the establishment of this fund). To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities office. A copy of the Municipal Utilities' audit report is available for the public's review.

Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Program receipts; property taxes; tax increment financing; and local option sales taxes finance most of these activities.

### *Fund Financial Statements*

The primary government of the City of Rock Rapids uses governmental funds only. Proprietary funds are used to account for business type activities and, as noted above, are conducted by the Rock Rapids Municipal Utilities, which is reported separately.

Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund; (2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Local Option Sales Tax, Urban Renewal Tax Increment, Revolving Loan and Library Memorial Trust; (3) the Debt Service Fund; (4) the Capital Projects Fund; and (5) the Permanent Funds, such as Library Endowment and Cemetery Perpetual Care. The governmental funds primary government financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Primary Government.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. Over the past year, the City's cash balance for primary government governmental activities decreased from \$3,284,777 to \$3,183,069. The analysis that follows focuses on changes in cash basis net position for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ending June 30,	
	2015	2014
Receipts:		
Program Receipts:		
Charges for Service	\$ 457,352	\$ 469,386
Operating Grants, Contributions, and Restricted Interest	848,618	579,520
Capital Grants, Contributions, and Restricted Interest	23,651	160,113
General Receipts:		
Property And Other City Tax	1,344,650	1,329,383
Tax Increment Financing	221,818	202,782
Local Option Sales Tax	259,008	228,996
Business Tax Credits	71,482	0
Grants and Contributions Not Restricted To Specific Purpose	158,748	170,663
Unrestricted Investment Earnings	10,673	8,656
Sale of Assets	1,600	0
Rents	28,585	26,875
Total Receipts	3,426,185	3,176,374
Disbursements:		
Public Safety	323,681	251,674
Public Works	1,140,202	643,949
Health and Social Services	10,400	35
Culture And Recreation	482,165	630,157
Community and Economic Development	583,699	442,612
General Government	203,296	183,047
Debt Service	451,330	513,743
Capital Projects	333,120	188,462
Total Disbursements	3,527,893	2,853,679
Change in Cash Basis Net Position	( 101,708)	322,695
Cash Basis Net Position Beginning of Year	3,284,777	2,962,082
Cash Basis Net Position End of Year	\$ 3,183,069	\$ 3,284,777

The City's total receipts for governmental activities this year was \$3,426,185, compared to \$3,176,374 last year, which is an increase of \$249,811, or 7.86%. The increase in receipts was mainly the result of the following increases: (a) \$269,098 in operating grants, contributions and restricted interest; (b) \$71,482 in commercial/industrial property tax replacement; these increases were offset by a decrease of \$136,462 in grants and contributions not restricted to specific purpose. The cost of all governmental activities this year was \$3,527,893, compared to \$2,853,679 last year, which is an increase of \$674,214, or 23.6%. The increase in disbursements was mainly due to the following increases: (a) \$72,007 in public safety; (b) \$496,253 in public works; (c) \$141,087 in community and economic development; (d) \$144,658 in capital projects; these increases were offset by a decrease of \$147,992 in culture and recreation.

The amount taxpayers ultimately financed for these governmental activities was only \$2,198,272, because some of the cost was paid by those who directly benefited from the programs (\$457,352) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$872,269). The City paid for the remaining "public benefit" portion of governmental activities with other receipts such as property taxes, tax increment financing, local option sales tax, general grants and contributions, unrestricted investment earnings, rents, and sale of assets.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Rock Rapids completed the year, its primary government governmental funds reported a combined cash balance of \$3,284,777, an increase of \$322,695 from last year's total of \$2,962,082. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$202,989, from \$1,383,757 to \$1,586,746 at June 30, 2015. This compares to a \$194,284 increase in the prior fiscal year. Receipts and other financing sources increased from the prior fiscal year by \$158,109. Property and other city tax revenues increased by \$26,408 due to increases in the taxable valuation. Intergovernmental revenue increases of \$189,520 consisted of the following: (a) Increase of \$46,124 in revenues from federal sources consisting of Community Development Block Grant funding for new daycare construction project; (b) Increase of \$54,179 in revenues from state sources including primarily Iowa Dept of Transportation – for airport projects – and Commercial and Industrial Tax Replacement; (c) Increase of \$89,217 in local grants and reimbursements due to contribution from Rock Rapids Utilities for flood relief. These increases were offset by the following decreases: (a) Miscellaneous revenues by \$38,168 due to decreases in reimbursement for grant funded projects from previous year; (b) Other financing sources by \$24,834 due to decreased regular transfers-in and TIF transfers-in. General Fund disbursements and other financing uses increased by \$149,405 from the prior fiscal year. Public Safety increased by \$84,113 as a result of entering into new contract with County for law enforcement. Public Works increased by \$59,173 due to purchase of airport equipment. Community and Economic Development increased by \$108,511 due to increased disbursements of donated funds for housing projects and of grant funds for a daycare project. These increases were offset by a decrease of \$132,492 in Culture and Recreation due to decreased costs from the prior year for installing drainage tile at the cemetery and for equipment repair to the community center and the swimming pool.

- The Special Revenue Road Use Tax Fund cash balance decreased by \$133,092, from \$396,562 to \$263,470 at June 30, 2015. This compares with a \$50,002 increase in the prior fiscal year. Receipts and other financing sources increased by \$248,934 due primarily to an increase of \$232,968 in federal disaster funding. Disbursements and other financing uses increased by \$432,027, due primarily to an increase of \$488,372 in disaster related costs. This increase was partly offset by a decrease of \$30,539 in costs for snow removal.
- The Library Memorial Trust Fund cash balance increased by \$2,661, from \$341,924 to \$344,585 at June 30, 2015. This increase, compared with a \$4,288 decrease in the prior fiscal year, was due to decreased costs for a grant funded project during the prior fiscal year.
- The Debt Service Fund cash balance increased by \$53,862, from \$144,076 to \$197,938 at June 30, 2015. This increase, which compares to a smaller increase of \$28,281 during the prior fiscal year, was due primarily to an increase of \$21,101 in commercial and industrial property tax replacement, as well as recurring decreased costs for interest and principal repayment on outstanding debt.
- The Capital Projects Fund cash balance decreased by \$292,168, from \$601,463 to \$309,295 at June 30, 2015. This compares to a smaller decrease of \$67,867 the prior fiscal year. Receipts and other financing sources decreased by \$79,644 due a decrease in RISE (state) grant funding from the prior fiscal year. Disbursements and other financing uses increased by \$144,657 due primarily to increased costs for activities relating to acquisition of flood-damaged property through the federal Hazard Mitigation Grant Program.

## **BUDGETARY HIGHLIGHTS**

The City amended its portion of the certified budget once during the 2015 fiscal year. Actual receipts came in \$872,522, or 20.3%, below budget for the City only portion of the certified budget. Intergovernmental receipts came in \$480,843, or 32.5%, below budget, due to having budgeted for the following: (a) Federal disaster funding that came in below budget; and (b) Receipts for Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for possible receipts and related disbursements. Miscellaneous receipts came in \$359,322, or 74.0%, below budget due to having budgeted for private contributions that came in below budget.

Disbursements came in \$2,704,974, or 43.4%, below budget. All functions came in below budget for the City only portion of the certified budget. Disbursements for public safety came in \$102,881, or 24.1%, below budget, due primarily to having budgeted for an internal non-expenditure transfer. Disbursements for public works came in \$802,467, or 41.3%, below budget due to having budgeted for the following: (a) An internal non-expenditure transfer; (b) Disaster recovery projects that have not yet materialized; (c) Equipment purchases that have been deferred. Disbursements for culture and recreation came in \$234,319, or 32.7%, below budget due to the following: (a) Internal non-expenditure transfers; (b) Deferred capital and equipment purchases; (c) Decreased operating costs for swimming pool and park due to non-operation during flood recovery. Disbursements for community and economic development came in \$1,493,097, or 71.9%, below budget, due primarily to having budgeted for the following: (a) Disbursements for the Municipal Housing Agency, a separate legal entity, for which the City always includes an estimate for possible intergovernmental receipts and related disbursements; (b) Economic development projects that did not materialize; (c) FEMA funded property acquisition projects, street construction projects and capital purchases that have not yet materialized. The net cash change for the fiscal year came in \$1,832,452 higher than budgeted for the City only portion of the certified budget.

## DEBT ADMINISTRATION

At June 30, 2015, the City had \$2,590,000 in notes, bonds, and other long-term debt, compared to \$2,980,000 last year, as shown below:

<b>Outstanding Debt at Year-End</b>		
<b>TYPE OF DEBT</b>	<b>2015</b>	<b>2014</b>
General Obligation Capital Loan Notes	\$ 2,590,000	\$ 2,980,000

The City Council issued no debt during the 2015 fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,590,000 is adequately below its constitutional debt limit of \$6,344,592.

More detailed information about the City's long-term debt is presented in Note 4 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Many factors were considered by the elected and appointed officials of the City of Rock Rapids when setting the fiscal year 2016 budget, tax rates and fees that will be charged for the various City activities. Among these factors are construction activity, taxable retail sales, and long-term objectives.

Building permits for new construction or improvements issued during calendar year 2014 were as follows: thirty-three permits for residential property, with estimated costs totaling \$3,268,325; five permits for commercial or industrial property, with estimated costs totaling \$966,000; four permits for tax-exempt property, with estimated costs totaling \$4,700,000. Compared with the prior calendar year, estimated costs during 2014 increased significantly in all three property classifications.

Taxable retail sales during fiscal year 2014 totaled \$28,089,678, which is an increase of \$261,412, or 0.9%, from the previous year. Rock Rapids presently accounts for 32.9% of totals for Lyon County, which is an increase from 32.6% during the previous year.

Consistent with goals and objectives identified in the City's Community-Wide Strategic Plan, the fiscal year 2016 budget includes a reduction, by two percent from the previous year, in the total tax levy rate on regular property. This decrease in property tax rates is partly offset by a 0.7% increase, to \$72,904,679, in regular property taxable valuation, resulting in a projected net decrease of \$16,118 in total property tax revenues.

Excluding capital improvements (which includes disaster-related activities), the fiscal year 2016 budget provides for a decrease in cash of approximately \$273,215, or 6.0%, of budgeted non-capital disbursements. However, due to budget surpluses that have accumulated in recent years, along with the expected non-recurrence of certain budgeted disbursements, the City is projected to maintain adequate cash reserves.

As a result of the June 2014 flood, the City, during fiscal year 2015, qualified for more than \$4 million in federal and state funding to assist with the costs of disaster recovery and hazard mitigation / property acquisition. While these projects remain in progress, the concurrent increase in housing construction appears to coincide with the need of replacement housing for displaced flood victims, as well as, more generally, changing demographics.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Rock Rapids' finances and to demonstrate the City's accountability for the money it receives. Questions about this report or requests for addition financial information should be addressed to: Jordan Kordahl, City Administrator, 310 South 3<sup>rd</sup> Avenue, Rock Rapids, Iowa 51246.





**City of Rock Rapids**  
**Basic Primary Government Financial Statements**

**City of Rock Rapids**

**Exhibit A**

**Statement of Activities and Net Position – Cash Basis  
Primary Government**

**As of and for the Year Ended June 30, 2015**

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities
	Disbursements				
<b>Functions/Programs:</b>					
Governmental Activities:					
Public Safety	\$ 323,681	360	56,699	0	(266,622)
Public Works	1,140,202	279,236	576,508	0	(284,458)
Health and Social Services	10,400	0	0	0	(10,400)
Culture and Recreation	482,165	107,458	36,475	0	(338,232)
Community and Economic Development	583,699	24,935	172,145	0	(386,619)
General Government	203,296	11,285	5,286	0	(186,725)
Debt Service	451,330	34,078	1,505	235	(415,512)
Capital Projects	333,120	0	0	23,416	(309,704)
Total Governmental Activities	\$ 3,527,893	457,352	848,618	23,651	(2,198,272)

**General Receipts:**

Property and Other City Tax Levied for:	
General Purposes	\$ 672,332
Employee Benefits	224,044
Debt Service	448,274
Tax Increment Financing	221,818
Local Option Sales Tax	259,008
Business Tax Credits	71,482
Grants and Contributions not Restricted to Specific Purpose	158,748
Unrestricted Interest on Investments	10,673
Sale of Capital Assets	1,600
Rents	28,585
Total General Receipts	<u>2,096,564</u>
Change in Cash Basis Net Position	(101,708)
Cash Basis Net Position Beginning of Year	<u>3,284,777</u>
Cash Basis Net Position End of Year	<u><u>\$ 3,183,069</u></u>

**Total Cash Basis Net Position**

## Restricted:

Nonexpendable - Library Endowment & Cemetery Perpetual Care	\$ 96,590
Expendable -	
Road Use Tax (Streets)	263,470
Library Projects	344,585
Debt Service	197,938
Capital Projects	309,295
Other Purposes	384,445
Unrestricted	<u>1,586,746</u>
<b>Total Cash Basis Net Position</b>	<u><u>\$ 3,183,069</u></u>

**City of Rock Rapids**

**Exhibit B**

**Statement of Cash Receipts, Disbursements, and Changes in Cash Balances  
Primary Government**

**As of and for the Year Ended June 30, 2015**

	Special Revenue						
	General	Road Use Tax	Library Memorial Trust	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
<b>Receipts:</b>							
Property Tax	\$ 670,961	0	0	447,533	0	223,481	1,341,975
Tax Increment Financing	0	0	0	0	0	221,818	221,818
Other City Tax	1,371	0	0	741	0	259,571	261,683
Licenses and Permits	15,747	0	0	0	0	0	15,747
Use of Money and Property	34,773	5,400	1,661	1,739	3,795	3,709	51,077
Intergovernmental	391,256	547,168	0	21,101	19,621	17,847	996,993
Charges for Service	376,886	0	0	0	0	0	376,886
Special Assessments	0	0	0	34,078	0	0	34,078
Miscellaneous	96,671	7,096	1,024	0	0	21,137	125,928
<b>Total Receipts</b>	<b>1,587,665</b>	<b>559,664</b>	<b>2,685</b>	<b>505,192</b>	<b>23,416</b>	<b>747,563</b>	<b>3,426,185</b>
<b>Disbursements:</b>							
<b>Operating:</b>							
Public Safety	314,900	0	0	0	0	8,781	323,681
Public Works	383,170	693,310	0	0	0	63,722	1,140,202
Health and Social Services	10,400	0	0	0	0	0	10,400
Culture and Recreation	429,302	0	24	0	0	52,839	482,165
Community and Economic Development	343,088	0	0	0	0	240,611	583,699
General Government	167,685	0	0	0	0	35,611	203,296
Debt Service	0	0	0	451,330	0	0	451,330
Capital Projects	0	0	0	0	333,120	0	333,120
<b>Total Disbursements</b>	<b>1,648,545</b>	<b>693,310</b>	<b>24</b>	<b>451,330</b>	<b>333,120</b>	<b>401,564</b>	<b>3,527,893</b>

Excess (Deficiency) of Receipts Over (Under) Disbursements	(60,880)	(133,646)	2,661	53,862	(309,704)	345,999	(101,708)
Other Financing Sources (Uses):							
Sale of Capital Assets	0	0	0	0	0	0	0
Operating Transfers In	263,869	554	0	0	17,536	0	281,959
Operating Transfers Out	0	0	0	0	0	(281,959)	(281,959)
Total Other Financing Sources (Uses)	263,869	554	0	0	17,536	(281,959)	0
Net Change in Cash Balances	202,989	(133,092)	2,661	53,862	(292,168)	64,040	(101,708)
Cash Balances Beginning of Year	1,383,757	396,562	341,924	144,076	601,463	416,995	3,284,777
Cash Balances End of Year	<u>\$ 1,586,746</u>	<u>263,470</u>	<u>344,585</u>	<u>197,938</u>	<u>309,295</u>	<u>481,035</u>	<u>3,183,069</u>
<b>Cash Basis Fund Balances</b>							
Nonspendable - Library Endowment & Cemetery Perpetual Care	\$ 0	0	0	0	0	96,590	96,590
Restricted for:							
Road Use Tax (Streets)	0	263,470	0	0	0	0	263,470
Library Projects	0	0	344,585	0	0	0	344,585
Debt Service	0	0	0	197,938	0	0	197,938
Capital Projects	0	0	0	0	309,295	0	309,295
Other Purposes	0	0	0	0	0	384,445	384,445
Committed	62,427	0	0	0	0	0	62,427
Assigned	916,308	0	0	0	0	0	916,308
Unassigned	608,011	0	0	0	0	0	608,011
Total Cash Basis Fund Balances	<u>\$ 1,586,746</u>	<u>263,470</u>	<u>344,585</u>	<u>197,938</u>	<u>309,295</u>	<u>481,035</u>	<u>3,183,069</u>

See Notes to Financial Statements.



## **City of Rock Rapids**

### **Notes to Primary Government Financial Statements**

**June 30, 2015**

#### **(1) Summary of Significant Accounting Policies**

The City of Rock Rapids is a political subdivision of the State of Iowa located in Lyon County. It was first incorporated in 1885 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

##### **A. Reporting Entity**

For financial reporting purposes, the City of Rock Rapids has included all funds, organizations, agencies, boards, commissions, and authorities of the primary government. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Rock Rapids (the primary government). As noted in the Independent Auditor's Report, the component units discussed below are not included in the financial statements. The primary government financial statements, because they do not include the financial data of the component units of the City of Rock Rapids, do not purport to, and do not present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2015, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described here in Note 1.

Component Units – If it were not for the City of Rock Rapids preparing financial statements of the primary government only, the Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be included as part of the City's reporting entity because of the significance of each organization's operational or financial relationship with the City. The Rock Rapids Municipal Utilities and the Rock Rapids Municipal Housing Agency would be presented as discretely presented component units in a separate column in the Statement of Activities and Net Position – Cash Basis to emphasize that each is legally separate from the City, but are financially accountable to the City, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Municipal Utilities is governed by a three-member board appointed by the Mayor and approved by the City Council and the Municipal Utilities operating budget is approved by the City Council. To obtain the financial information on the Municipal Utilities, please contact the Municipal Utilities' office. A copy of the Municipal Utilities' audit report is available for the public's review. The Rock Rapids Municipal Housing Agency is governed by a five-member board appointed by the Mayor and City Council and the City has the ability to impose its will on the Housing Agency by influencing the programs, projects, activities and level of services performed/provided by the Housing Agency. To obtain financial information on the Housing Agency, please contact the Chamber of Commerce/Municipal Housing office.

The City of Rock Rapids received \$208,834 from the Rock Rapids Municipal Utilities during the fiscal year ended June 30, 2015 (\$203,554 is intergovernmental receipts and \$5,280 is charges for service). Of the \$203,554 in intergovernmental receipts from the Rock Rapids Municipal Utilities, \$194,484 is donations and \$9,070 is for the Utilities share of the residential demolition program. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$11,810 for garbage/recycling billing and collection services. The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other. The City of Rock Rapids received \$11,490 in intergovernmental receipts (payment in lieu of taxes) from the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2015. The City of Rock Rapids did not pay any money to the Rock Rapids Municipal Housing Agency during the fiscal year ended June 30, 2015.

Jointly Governed Organizations – The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lyon County Assessor's Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Iowa Area Solid Waste Agency, the Lyon County Economic Development Consortium, the Northwest Iowa Regional Housing Authority, and the Hazardous Material Response Commission (HAZMAT). During the fiscal year ended June 30, 2015, the City did not directly contribute any money to the Assessor, E911, Emergency Management, Economic Development Consortium, the Northwest Iowa Area Solid Waste Agency, the Northwest Iowa Regional Housing Authority, or HAZMAT.

## B. Basis of Presentation

Government-Wide Financial Statement – The Cash Basis Statement of Activities and Net Position – Primary Government reports information on all of the nonfiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. This financial statement reports governmental activities which are supported to a significant extent by tax and intergovernmental revenues.

The Cash Basis Statement of Activities and Net Position – Primary Government presents the City's primary government nonfiduciary net position. Net position is reported in the following categories/components:



*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash basis to be maintained permanently by the City, including the City's Permanent Funds (the Library Endowment and Cemetery Perpetual Care Funds).

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management, which can be removed or modified (General Fund).

The cash basis Statement of Activities and Net Position – Primary Government demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statement – A separate financial statement is provided for the primary government governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statement. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Library Memorial Trust Fund is used to account for library projects financed by donations and investment income.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and/or construction of major capital equipment and facilities for the City.

### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact (the City's Permanent Funds).

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation (the City's Special Revenue, Debt Service and Capital Projects Funds).

Committed – Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same action it employed to commit those amounts (General Fund : Library purposes - \$62,427).

Assigned – Amounts the Council intends to use for specific purposes (General Fund: Community Center Purposes - \$107,920, Park Improvement Purposes - \$106,600, Fire Department Purposes - \$354,232, Airport Purposes - \$46,811, Lyon County Riverboat Foundation Receipts for Special Projects - \$250,747 and Trees Purposes - \$50,000).

Unassigned – All amounts not included in other spendable classifications (portion of the General Fund).

## E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements for the City of Rock Rapids only portion of the budget did not exceed the amounts budgeted in any function; however, the budget amendment to increase budgeted disbursements in the Health and Social Services function was not adopted before the actual disbursements exceeded the amount originally budgeted.

### (2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

### (3) **Notes Receivable - Revolving Loan Fund**

The City established a Revolving Loan Fund for the purpose of lending monies for various economic development projects at a reasonable rate of interest to promote economic development within the City.

The notes issued are payable over ten years at 3.5% for the first five years and an adjustable rate for the last five years. The balances as of June 30, 2015, are computed as follows:

Balance on June 30, 2014	\$ 109,244
New Notes Issued	0
Payments on Principal	(11,928)
Balance on June 30, 2015	<u>\$ 97,316</u>

The following are the scheduled amounts of notes receivable principal (net of \$0 in allowance for doubtful accounts) coming due for the fiscal years ending:

<u>Fiscal Year Ended June 30:</u>	<u>Principal Payments</u>
2016	\$ 14,226
2017	14,733
2018	15,257
2019	15,798
2020	13,856
2021-2023	<u>23,446</u>
Total	<u>\$ 97,316</u>

Interest received on the notes receivable was \$3,105 during fiscal year June 30, 2015.

#### (4) Notes Payable

Annual debt service requirements to maturity for general obligation capital loan notes are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	\$ 390,000	54,172	444,172
2017	400,000	47,663	447,663
2018	410,000	40,462	450,462
2019	415,000	32,010	447,010
2020	375,000	22,490	397,490
2021- 2023	600,000	26,900	626,900
Total	\$ 2,590,000	223,697	2,813,697

During the fiscal year ended June 30, 2015, the City redeemed principal on general obligation capital loan notes of \$390,000, paid \$59,395 in interest on the long-term debt, and paid \$1,935 in note fees. The general obligation capital loan notes were redeemed through the Debt Service Fund in the fiscal year ended June 30, 2015.

Due to the primary government financial statements being prepared on the cash basis, these notes payable are not reflected on the City's financial statements.

#### (5) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$49,559.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$296,780. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.0074833 percent, which was an increase of 0.000144 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$24,457, \$17,065 and \$132,829 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term Investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utilities' proportionate share of the net pension liability:	\$ 600,427	296,780	40,477

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

#### (6) **Other Postemployment Benefits (OPEB)**

Plan Description. The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees, and their spouses. There are 10 active and 0 retired members participating in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross and Blue Shield of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$497 for single coverage and \$1,243 for family coverage. For the year ended June 30, 2015, the City contributed \$93,269 and plan members eligible for benefits contributed \$46,149 to the plan.

#### (7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2015, primarily relating to the General and Road Use Tax Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 49,989
Sick Leave	24,249
Total	\$ 74,238

All of an employee's vacation is paid upon retirement, termination or death. If an employee, except a Library employee, has ten or more years of service with the City, 15% of sick leave is paid upon retirement, termination or death. No sick leave is paid upon retirement, termination or death for Library employees. The amount of sick leave reported above only includes the sick leave for eligible employees that have attained the ten years or more of service requirement.

This liability has been computed based on rates of pay in effect at June 30, 2015.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ 250,000
General	Special Revenue: Urban Renewal Tax Increment	13,869
Special Revenue: Capital Projects	Special Revenue: Urban Renewal Tax Increment	18,090
Total		<u>\$ 281,959</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are mainly covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Please see "Findings Related to the Primary Government Financial Statements: 15-G" in regards to "hangar keepers coverage" for the airport.

**(10) Employee Health Insurance Coverage**

The City of Rock Rapids provides group health insurance coverage for eligible employees through Wellmark Blue Cross and Blue Shield of Iowa. The City assumes liability for claims against the insurance deductible of \$250 for the first \$500, and covers anything over that up to \$2,000 under an individual policy. The City covers \$500 for the first \$1,000, and covers anything over that up to \$4,000 for a family policy. The City's expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate fund.

**(11) Intergovernmental Agreement**

The City has entered into an agreement with the Northwest Iowa Area Solid Waste Agency, a political subdivision created in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste produced or generated from within the City. There were no payments made directly to the Northwest Iowa Area Solid Waste Agency by the City during the fiscal year ended June 30, 2015.

State and Federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post closure costs to the Agency have been estimated at \$3,566,908 as of June 30, 2015, and the portion of the liability that has been recognized by the Agency as of June 30, 2015, is \$1,406,185.



Due to a change in estimate, the remaining life of the landfill has been increased by 23 years. The estimated remaining life of the landfill is 63 years and the capacity used at June 30, 2015, is approximately 39%. The Agency has begun to accumulate resources to fund these costs. As of June 30, 2015, assets of \$1,732,911 are restricted for these purposes. The Agency has fully demonstrated financial assurance for closure and post closure care costs as required by Chapter 113 of the Iowa Administrative Code. Also, please see the Agency's audit report for note disclosure regarding litigation between the Agency and the Iowa Attorney General. The Iowa Attorney General is seeking penalties for supposed improperly sold waste disposal. No estimate has been made as to the possibility of any future assessments to the City.

**(12) Commitments**

In November 2012, the City approved reimbursements to Lyon County in the amount of \$173,893, payable in 3 equal annual payments of \$57,964 starting in fiscal year 2015, for resurfacing work done on K-52. During fiscal year 2015, \$57,964 was paid to Lyon County. As of June 30, 2015, the remaining balance due was \$57,964.

**(13) Subsequent Events**

In July 2015 the City Council approved contracts for legal services for activities funded under the Hazard Mitigation which encompasses the acquisition of 37 properties at a cost of \$950 per property.

In August 2015 the City Council approved the purchase offers for the purchase of 10 properties pursuant to the Hazard Mitigation Program through Grant Agreement.

In September 2015 the City Council approved the purchase of real estate at a price of \$75,000 with the City to pay all closing and commission fees.

In October 2015 the City Council approved a loan from the Revolving Loan Fund in the amount of \$20,000. The loan is to be repaid over 10 years with a 3.25 percent variable interest rate.



**City of Rock Rapids**

**Other Information**

**City of Rock Rapids**  
**Budgetary Comparison Schedule of**  
**Receipts, Disbursements and Changes in Balances –**  
**Budget and Actual (Cash Basis) – All Governmental Funds**  
**Primary Government**

**Other Information**

**Year Ended June 30, 2015**

	Governmental Funds Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
<b>Receipts:</b>				
Property Tax	\$ 1,341,975	1,380,443	1,380,443	( 38,468)
Tax Increment Financing	221,818	232,620	232,620	( 10,802)
Other City Tax	261,683	240,048	240,048	21,635
Licenses and Permits	15,747	9,000	9,000	6,747
Use of Money and Property	51,077	61,660	61,660	( 10,583)
Intergovernmental	996,993	2,274,836	1,477,836	( 480,843)
Charges for Service	376,886	371,850	371,850	5,036
Special Assessments	34,078	40,000	40,000	( 5,922)
Miscellaneous	125,928	587,250	485,250	( 359,322)
Total Receipts	3,426,185	5,197,707	4,298,707	( 872,522)
<b>Disbursements:</b>				
Public Safety	323,681	426,562	426,562	( 102,881)
Public Works	1,140,202	988,669	1,942,669	( 802,467)
Health and Social Services	10,400	1,000	21,000	( 10,600)
Culture and Recreation	482,165	716,484	716,484	( 234,319)
Community and Economic Development	583,699	1,637,796	2,076,796	( 1,493,097)
General Government	203,296	239,497	239,497	( 36,201)
Debt Service	451,330	450,895	455,895	( 4,565)
Capital Projects	333,120	2,336,964	353,964	( 20,844)
Total Disbursements	3,527,893	6,797,867	6,232,867	( 2,704,974)
Deficiency of Receipts Under Disbursements	( 101,708)	( 1,600,160)	( 1,934,160)	( 1,832,452)
Other Financing Sources, Net	0	1,500,000	0	0
Deficiency of Receipts and Other Financing Sources Under Disbursements and Other Financing Uses	( 101,708)	( 100,160)	( 1,934,160)	( 1,832,452)
Balances Beginning of Year	3,284,778	3,021,869	3,423,917	3,525,764
Balances End of Year	\$ 3,183,069	2,921,709	1,489,757	1,693,312

- Note: These figures do not reflect amounts included in the City's legally adopted budget for the Rock Rapids Municipal Utilities, which is a component unit that was audited separately. The amounts that were removed for the Rock Rapids Municipal Utilities from the original budget included \$4,677,306 in receipts (charges for services).

See Accompanying Independent Auditor's Report.

## **City of Rock Rapids**

### **Notes to Other Information – Budgetary Reporting**

**June 30, 2015**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds (which there are none) for the City of Rock Rapids. The City's adopted budget includes the Rock Rapids Municipal Utilities, which is a legally separate component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, one budget amendment decreased budgeted disbursements by \$(565,000). The budget amendment is reflected in the final budgeted amounts.

The Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds – Primary Government does not reflect the amounts included in the City's budget for the Rock Rapids Municipal Utilities. Please see the Rock Rapids Municipal Utilities audit report for information concerning budget to actual figures for the Municipal Utilities.

During the year ended June 30, 2015, disbursements did not exceed the amount budgeted for any function; however, the budget amendment to increase budgeted disbursements in the Health and Social Services function was not adopted before the actual disbursements exceeded the amount originally budgeted.

**City of Rock Rapids**

**Schedule of the City' Proportionate Share of the Net Pension Liability**

**Iowa Public Employees' Retirement System  
Last Fiscal Year\***

**Other Information**

	<u>2015</u>
City's Proportion of the Net Pension Liability	0.0074833%
City's Proportionate Share of the Net Pension Liability	\$ 296,780
City's Covered-Employee Payroll	\$ 617,106
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	48.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%

\* The amounts presented for this fiscal year were determined as of June 30.

See Accompanying Independent Auditor's Report.

**City of Rock Rapids**

**Schedule of City Contributions**

**Iowa Public Employees' Retirement System  
Last 10 Fiscal Years**

**Other Information**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily Required Contribution	\$ 49,558	51,317	48,349	42,964	32,253	29,743	27,079	28,327	26,773	25,608
Contributions in Relation to the Statutorily Required Contribution	<u>(49,558)</u>	<u>(51,317)</u>	<u>(48,349)</u>	<u>(42,964)</u>	<u>(32,253)</u>	<u>(29,743)</u>	<u>(27,079)</u>	<u>(28,327)</u>	<u>(26,773)</u>	<u>(25,608)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
City Covered Employee Payroll	\$ 617,106	622,865	616,253	598,823	510,457	491,409	491,542	501,477	474,437	464,951
Contributions as a Percentage of Covered Employee Payroll	8.03%	8.24%	7.85%	7.17%	6.32%	6.05%	5.51%	5.65%	5.64%	5.51%

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

### Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2015

#### Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

#### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



**City of Rock Rapids**  
**Supplementary Information**



# City of Rock Rapids

## Schedule 1

### Statement of Cash Receipts, Disbursements, and Changes in Cash Balances Primary Government

As of and for the Year Ended June 30, 2015

	Special Revenue				Permanent		Total
	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment	Revolving Loan Fund	Library Endowment	Cemetery Perpetual Care	
Receipts:							
Property Tax	\$ 223,481	0	0	0	0	0	223,481
Tax Increment Financing	0	0	221,818	0	0	0	221,818
Other City Tax	563	259,008	0	0	0	0	259,571
Use of Money and Property	0	0	0	3,709	0	0	3,709
Intergovernmental	10,896	0	6,951	0	0	0	17,847
Miscellaneous	0	0	0	11,968	0	9,170	21,138
Total Receipts	234,940	259,008	228,769	15,677	0	9,170	747,564
Disbursements:							
Operating:							
Public Safety	8,781	0	0	0	0	0	8,781
Public Works	63,723	0	0	0	0	0	63,723
Culture and Recreation	52,839	0	0	0	0	0	52,839
Community and Economic Development	47,846	0	192,765	0	0	0	240,611
General Government	35,611	0	0	0	0	0	35,611
Total Disbursements	208,800	0	192,765	0	0	0	401,565
Excess (Deficiency) of Receipts Over (Under) Disbursements	26,140	259,008	36,004	15,677	0	9,170	345,999
Other Financing Uses:							
Operating Transfers Out	0	(250,000)	(31,959)	0	0	0	(281,959)
Net Change in Cash Balances	26,140	9,008	4,045	15,677	0	9,170	64,040
Cash Balances Beginning of Year	137,648	6,145	24,785	160,997	2,000	85,420	416,995
Cash Balances End of Year	\$ 163,788	15,153	28,830	176,674	2,000	94,590	481,035
Cash Basis Fund Balances							
Nonspendable: Library Endowment & Cemetery Perpetual Care	\$ 0	0	0	0	2,000	94,590	96,590
Restricted for:							
Other Purposes	163,788	15,153	28,830	176,674	0	0	384,445
Total Cash Basis Fund Balances	\$ 163,788	15,153	28,830	176,674	2,000	94,590	481,035

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

## Statement of Indebtedness – Primary Government

Year Ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Capital Loan Notes:									
Street Improvements	June 1, 2010	2.25-3.40%	1,675,000	\$ 920,000	0	145,000	775,000	27,455	0
Street Improvements	April 30, 2012	2.0%-2.35%	600,000	600,000	0	0	600,000	13,100	0
Refunding 2013B	April 30, 2012	0.8%-1.80%	1,460,000	1,460,000	0	245,000	1,215,000	18,840	0
Total				\$ 2,980,000	0	360,000	2,590,000	59,395	0

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

## Note Maturities – Primary Government

June 30, 2015

General Obligation Capital Loan Notes							
Year Ending June 30,	Street Improvements		Refunding 2013		Street Improvements		Totals
	Issued June 1, 2010		Issued April 30, 2012		Issued April 30, 2012		
	Interest Rates	Amounts	Interest Rates	Amounts	Interest Rates	Amounts	
2016	2.80%	\$ 145,000	1.00%	245,000	2.00%	0	\$ 390,000
2017	2.80%	150,000	1.20%	250,000	2.00%	0	400,000
2018	3.15%	155,000	1.40%	255,000	2.00%	0	410,000
2019	3.40%	160,000	1.60%	255,000	2.00%	0	415,000
2020	3.40%	165,000	1.80%	210,000	2.00%	0	375,000
2021	0	0	0	0	2.00%	200,000	200,000
2022	0	0	0	0	2.20%	200,000	200,000
2023	0	0	0	0	2.35%	200,000	200,000
		\$ 775,000		1,215,000		600,000	\$ 2,590,000

See Accompanying Independent Auditor's Report.

**City of Rock Rapids  
Schedule of Receipts by  
Source and Disbursements by Function –  
All Governmental Funds  
Primary Government  
For the Last Ten Years**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Receipts:</b>										
Property Tax	\$ 1,341,975	1,326,905	1,311,656	1,309,787	1,320,420	1,148,455	1,243,128	1,204,514	1,281,476	1,143,078
Tax Increment Financing	221,818	202,783	177,727	175,765	177,782	124,264	116,926	106,300	97,323	58,816
Other City Tax	261,683	231,474	247,931	289,763	187,085	181,385	181,954	172,028	177,454	150,698
Licenses and Permits	15,747	9,916	11,522	9,289	8,594	7,354	10,424	10,685	10,183	10,309
Use of Money and Property	51,077	52,119	54,016	57,214	50,243	67,890	106,550	94,146	128,669	85,901
Intergovernmental*	996,993	711,805	490,061	403,588	546,418	518,490	854,690	454,564	569,711	631,132
Charges for Service	376,886	379,775	379,372	370,245	329,933	300,259	302,792	286,158	279,477	257,502
Special Assessments	34,078	42,188	53,711	62,424	118,360	361,821	26,282	3,292	4,565	3,414
Miscellaneous	125,928	219,411	299,555	340,810	228,918	184,592	114,904	142,721	153,097	277,009
<b>Total Receipts</b>	<b>\$ 3,426,185</b>	<b>3,176,376</b>	<b>3,025,551</b>	<b>3,018,885</b>	<b>2,967,753</b>	<b>2,894,510</b>	<b>2,957,650</b>	<b>2,474,408</b>	<b>2,701,955</b>	<b>2,617,859</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public Safety	\$ 323,681	251,674	295,308	306,675	329,798	275,426	462,199	237,072	208,849	205,274
Public Works	1,140,202	643,949	644,923	638,716	665,723	885,920	499,689	602,819	461,370	507,579
Health and Social Services	10,400	35	914	1,603	0	0	0	0	0	0
Culture and Recreation	482,165	630,157	588,182	543,510	507,794	592,245	461,023	489,112	512,154	515,733
Community and Economic Development	583,699	442,612	466,778	404,324	372,628	290,526	252,009	224,259	210,810	332,804
General Government	203,296	183,048	202,078	188,599	192,748	214,121	176,716	170,643	163,409	153,684
Debt Service	451,330	513,743	587,801	618,485	563,290	946,888	899,413	840,100	606,850	538,022
Capital Projects	333,120	188,463	380,369	482,214	690,595	1,107,806	1,952,377	432,012	577,829	61,206
<b>Total Disbursements</b>	<b>\$ 3,527,893</b>	<b>2,853,681</b>	<b>3,166,353</b>	<b>3,184,126</b>	<b>3,322,576</b>	<b>4,312,932</b>	<b>4,703,426</b>	<b>2,996,017</b>	<b>2,741,271</b>	<b>2,314,302</b>

See Accompanying Independent Auditor's Report.

## City of Rock Rapids

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development Iowa Economic Development Authority Community Development Block Grant Program	14.228	13-CF-002	\$ 49,856
U.S. Department of Transportation - Federal Highway Administration Iowa Department of Transportation Highway Planning and Contruction	20.205	03-13-HPPS-023	20,852
U.S. Department of Homeland Security: Iowa Department of Homeland Security and Emergency Management Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 4184-DR-IA	457,131
Total			<u>\$ 527,839</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Rock Rapids and is presented on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.





**City of Rock Rapids**

**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

# **DE NOBLE, AUSTIN & COMPANY PC**

## **Certified Public Accountants**

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### **Independent Auditor's Report on** **Internal Control over Financial Reporting and on Compliance and Other Matters** **Based on an Audit of Financial Statements Performed in Accordance with** **Government Auditing Standards**

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Rock Rapids, Iowa, as of and for the fiscal year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic primary government financial statements, and have issued our report thereon dated February 8, 2016. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursement, a basis of accounting other than U.S. generally accepted accounting principles. However, the financial statements referred to above include only the primary government of the City of Rock Rapids, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles prepared on the basis of accounting described in Note 1 require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Rock Rapids, Iowa, as of June 30, 2015, and the changes in cash basis financial position for the fiscal year then ended in conformity with the basis of accounting described in Note 1.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the primary government financial statements, we considered the City of Rock Rapids' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the primary government financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rock Rapids' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items 15-A, B, C, D, E and F to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 15-G to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rock Rapids' primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the fiscal year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Rock Rapids' Responses to Findings

The City of Rock Rapids' responses to the findings identified in our audit are described in the accompanying Schedule of Finding and Questioned Costs. The City of Rock Rapids' responses were not subjected to the auditing procedures applied in the audit of the primary government financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not or provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rock Rapids during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*De Noble, Austin & Company PC*

De Noble & Company PC  
d/b/a De Noble, Austin & Company PC  
Certified Public Accountants

February 8, 2016



**City of Rock Rapids**

**Independent Auditor's Report on Compliance  
for Each Major Federal Program and on  
Internal Control over Compliance  
Required by OMB Circular A-133**

# ***DE NOBLE, AUSTIN & COMPANY PC***

## **Certified Public Accountants**

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### **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133**

To the Officials of City of Rock Rapids:

#### **Report on Compliance for Each Major Federal Program**

We have audited the City of Rock Rapids, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2015. The City of Rock Rapids' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the City of Rock Rapids' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rock Rapids' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Rock Rapids' compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, the City of Rock Rapids complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

#### **Other Matters**

The results of our auditing procedures did not disclose any instances of non-compliance which is required to be reported in accordance with OMB Circular A-133.

## Report on Internal Control Over Compliance

The management of the City of Rock Rapids is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Rock Rapids' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Rock Rapids' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 15-1 to be a material weakness.

The City of Rock Rapids' responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Rock Rapids' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*De Noble, Austin & Company PC*

De Noble & Company PC  
d/b/a De Noble, Austin & Company PC  
Certified Public Accountants

February 8, 2016

**City of Rock Rapids**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) The material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 97.036 – Federal Emergency Management Agency – Disaster Recovery.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Rock Rapids did not qualify as a low-risk auditee.



**City of Rock Rapids**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

**Part II: Findings Related to the Primary Government Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- 15-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and numerous recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent person could be used to regularly check paychecks for accuracy, verify vacation and sick leave, examine employee expense reimbursements, periodically examine investments, review invoices, and review the financial records.

Response – We will continue to investigate the options we have within economic constraints in order to segregate duties to the extent possible with existing personnel of the City and the Municipal Utilities.

Conclusion – Response accepted. It is important that you continue to attempt to implement these recommendations.

- 15-B Records of Accounts – The Library Board maintains the accounting records pertaining to the operations of the Library. These transactions are not recorded in complete detail in the Clerk's records (only the totals for the fiscal year are entered in the Clerk's records). Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, all financial activity of all City accounts should be recorded in the Clerk's records.

Response – The financial activity and balances of the Library are subjected to annual audit and are handled by responsible individuals. No irregularities and only minor errors have ever been detected. If the Library Board has an individual who is willing and able to provide her services for no additional remuneration, the City Clerk will continue to review the Library Board's reports that are provided on a monthly basis as a form of control and enter the fiscal year totals in the Clerk's records.

Conclusion – Response acknowledged. The City of Rock Rapids is aware of our recommendation.

**City of Rock Rapids**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

- 15-C Job Rotations – Financial personnel’s duties are not always rotated for a period of time each fiscal year.

Recommendation – The City should consider the need for financial personnel (including the Library) to annually take a minimum amount of vacation time and each person’s duties should be done by another employee when a person is on vacation. The City needs to have individuals who are trained in an employee’s position in order to provide backup support in case of an emergency.

Response – We will continue to work toward being able to rotate duties within economic constraints. We attempt to minimize any potential problems in this area through supervisory review of job duties.

Conclusion – Response acknowledged. Please attempt to rotate financial personnel’s duties on a regular basis. Please make sure the Library addresses this also.

- 15-D Management Procedures – Based on the fact that the audit continues to report several deficiencies, it appears that there is a lack of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

Recommendation – City management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. City management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.

- 15-E Insurance Policy – The City has received a recommendation from its insurance provider to require “hangarkeepers coverage” in the airport’s fixed base operator lease. This is a separate policy that covers the aircraft that is being serviced or repaired by the lessee, as this is not covered by the general liability policy. At present time, there is no “hangarkeepers coverage” maintained by the lessee. Additionally, the lease is outdated.

Recommendation – The City should review the lease and be sure that it is current and complied with. They should consider the need to require an adequate amount of “hangarkeepers coverage” in its airport operator lease.

Response – The City is working with the insurance carrier and the airport commission to be sure these issues are addressed.

Conclusion – Response accepted. Please make sure your City Attorney and insurance agent are in agreement that the City has adequate coverage based on the risk the City is willing to accept.

**City of Rock Rapids**

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2015**

- 15-F Payroll Issues – Having time cards/sheets signed by the employee and the employee's direct supervisor is an important internal control procedures which mitigates risk relating to the accuracy of hours worked. It appears that payroll time sheets of City employees are being signed/formally approved by the employees' supervisor. However, we noted that based on schedules and limited oversight of some employees, it is difficult to verify, and therefore approve, the accuracy of the employees' hours and use of vacation/sick leave in accordance with the personnel policies. Under the Affordable Care Act, all full time employees must be offered health insurance if a group plan is available. We noted an employee who meets these requirements but was not offered health insurance through the City's group plan.

Recommendation – The City should consider implementing procedures which would strengthen the oversight over employees' working hours and the ability for the supervisor approving the employees' timesheets to verify time worked. Additionally, please review the Affordable Care Act to be sure that all provisions are being complied with.

Response – We will look into improving our procedures and be sure that health insurance is offered to all eligible employees.

Conclusion – Response accepted.

- 15-G Disbursement Procedures – We noted several instances where supporting documentation was not available to substantiate the cost of meals that were purchased. Additionally, the credit card policy does not allow tipping under any circumstance and several instances of tips on the City credit card were found.

Recommendation – All disbursements need to be supported by an actual receipt or invoice that supports the disbursement in detail. The policy regarding tipping on the City credit card needs to be followed or changed.

Response – We will continue to improve our procedures to ensure proper documentation is received for meal reimbursements and address the need to change our credit card policy.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**City of Rock Rapids**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCE OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCY:**

**CFDA Number 97.036: Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Pass-through Agency Number: FEMA-4184-DRIA**

**Federal Award Year: 2015**

**U.S. Department of Homeland Security**

**Iowa Department of Homeland Security and Emergency Management**

- 15-a      Segregation of Duties over Federal Receipts and Disbursements – The City does not have segregation of duties between handling of cash and numerous recordkeeping functions, including those related to federal programs. See item 15-A.

**City of Rock Rapids**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2015**

**Part IV: Other Findings Related to Required Statutory Reporting:**

- 15-1      Certified Budget – Disbursements during the fiscal year ended June 30, 2015 did not exceed the final amended budget amount for the City; however, disbursements in the health and social services function did exceed the original budgeted amount before the final amended budget was adopted. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”
- Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the original adopted budget.
- Response – We will make sure the is amended and adopted by the City Council in the future before we authorize disbursements that would exceed the original adopted budgeted disbursements total.
- Conclusion – Response accepted.
- 15-2      Questionable Disbursements – We noted no disbursements which we believe may not meet the requirements of public purpose, as defined in an Attorney General’s opinion dated April 25, 1979. However, please see “Findings Related to the Financial Statements 15-F” for a possible related comment.
- 15-3      Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- 15-4      Business Transactions – No business transactions between the City and City officials or employees were noted.
- 15-5      Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 15-6      City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- 15-7      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s written investment policy were noted.
- 15-8      Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

## **City of Rock Rapids**

### **Staff**

This audit was performed by:

David De Noble, CPA, Senior Auditor  
Carmen Austin, CPA, Senior Auditor  
Kayla Reck, Assistant Auditor  
Russell Forest, Assistant Auditor

De Noble & Company PC  
d/b/a De Noble, Austin & Company PC  
Certified Public Accountants